**BEFORE THE WASHINGTON**

**UTILITIES AND TRANSPORTATION COMMISSION**

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| WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,  Complainant,  v.  AVISTA CORPORATION d/b/a AVISTA UTILITIES,  Respondent. |
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DOCKETS UE-160228 and

UG-160229 (*Consolidated*)

ORDER 05

ORDER DENYING MOTION TO SUPPLEMENT THE RECORD; REJECTING RESPONSES TO COMMISSION BENCH REQUESTS

# MEMORANDUM

1. On February 19, 2016, Avista Corporation d/b/a Avista Utilities (Avista) filed with the Washington Utilities and Transportation Commission (Commission) revisions to its currently effective Tariff WN U-28, Electric Service, and Tariff WN U-29, Natural Gas Service. In Order 01, the Commission suspended the proposed tariff revisions and consolidated them for hearing. The Commission conducted evidentiary hearings on October 12 and October 13, 2016.
2. In its initial filing, Avista proposed to update its power supply costs 60 days prior to new rates going into effect on January 1, 2017, and again 60 days prior to its proposed second step rate increase on January 1, 2018. No party objected to this proposal.
3. On November 1, 2016, Avista filed a Motion to Supplement the Record to Include Power Supply Update (Motion). Avista requests that the Commission update its power supply expenses to: 1) update the three-month average of natural gas and electricity market prices; 2) include new short-term contracts for natural gas and electric; and 3) update or correct power and transmission service contracts for the proposed 18-month rate period. The Company states in its Motion that it also updated certain power supply-related expenses and transmission revenues within the power supply update and reset the base for the Energy Recovery Mechanism (ERM) calculations for the future rate period.
4. The result of Avista’s power supply update reduces overall power supply costs by approximately $591,000 for 2017 and $1.46 million for the first six months of 2018. On rebuttal, the Company proposed an updated revenue requirement of $40.1 million for 2017, but did not increase its original revenue request. In its Motion, the Company proposes to reduce the $40.1 million *updated* revenue requirement to approximately $39.5 million, which still exceeds the $38.6 million increase Avista originally requested in this case. Given Avista’s statement in its rebuttal testimony that it would not seek to update its revenue request relative to the Company’s as-filed case, the revised numbers presented on rebuttal were neither examined closely nor challenged by other parties. Thus, we cannot be confident of the true impact of the Company’s power cost update.
5. On November 10, 2016, the Industrial Customers of Northwest Utilities (ICNU) filed a response to Avista’s Motion. Although ICNU does not oppose the Motion, it raises several concerns about Avista’s supporting documents. First, ICNU notes that, without explanation, Avista updated only one of its two power cost studies.[[1]](#footnote-1) Second, ICNU argues that Avista changed the formula for calculating a fixed capacity payment for the Lancaster Generating Facility, again without explanation, resulting in a significant increase in power costs. Finally, Avista failed to explain why its forecast output from its Noxon Rapids Hydro Facility declined significantly. ICNU recommends that the Commission require Avista to perform a “step study,” which would detail the impact of each incremental change proposed by the Company and allow the parties to appropriately evaluate its proposal.
6. Also on November 10, 2016, Commission regulatory staff (Staff) filed a response opposing Avista’s Motion. Staff recommends the Commission deny the Motion because the Company based its proposed power supply update on models, assumptions, and estimates different from those it relied on in earlier phases of the case, essentially presenting a new power cost case at this late stage of the proceeding. Staff argues that there is no procedural opportunity to rigorously analyze the Company’s changes or verify the reasonableness or accuracy of the Company’s filing. Staff also opposes the Company’s proposal to use the power cost updates to adjust the ERM baseline because Staff believes that doing so now, and twice in 2018, frustrates the purpose of the ERM.
7. Staff argues that an acceptable power cost update would include only the following: 1) material, known, and measurable updates to power contracts; 2) updates to forward gas and market power prices; and 3) AURORA model-run parameters set identically to those in Avista’s as-filed case or modified as specified in the Commission’s final order.
8. Finally, Staff recommends the Commission reject Avista’s response to the Commission’s Bench Request Nos. 10.3 and 10.4, related to updated power costs, because those responses are based on the same updates proposed in the Company’s Motion.

# DISCUSSION AND DECISION

1. We deny Avista’s Motion to Supplement the Record to Include Power Supply Update. In the context of a general rate case, if allowed at all, power cost updates should be limited adjustments to power costs using the same methods, assumptions, and estimates used in the company’s initial power cost case.[[2]](#footnote-2)
2. We agree with Staff that Avista’s proposed power cost update contains “new and material changes to specific parameters within the AURORA model itself,”[[3]](#footnote-3) and that those changes, in conjunction with the changes in the Company’s assumptions and estimates, exceed the scope of a technical update. Moreover, as ICNU notes, Avista failed to provide an explanation for these changes or why the Commission should accept them. For these reasons, Avista’s Motion is denied.
3. We also agree with Staff that the Company’s responses to Bench Request Nos. 10.3 and 10.4 should be rejected. Because these responses are based on the same updates to power costs that support the Company’s Motion, they are not responsive to the Commission’s requests. Avista must respond to these Bench Requests with reference to the Company’s as-filed power costs.

**ORDER**

1. For the reasons stated in the body of this Order, the Commission

(a) denies Avista’s Motion to Supplement the Record to Include Power Supply Update, and

(b) rejects Avista’s responses to Bench Request Nos. 10.3 and 10.4.

1. The Commission directs Avista to submit new responses to Bench Request Nos. 10.3 and 10.4 with reference to the Company’s as-filed power costs by 3 p.m. on Monday, November 28, 2016.

Dated at Olympia, Washington, and effective November 22, 2016.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

RAYNE PEARSON

Administrative Law Judge

1. Avista’s attrition study uses both a power cost study based on historical loads and a power cost study based on pro forma loads. According to ICNU, the Company appears to have only updated the power cost study based on historical loads in its power cost update. [↑](#footnote-ref-1)
2. Although the Commission has recently allowed power cost updates during the pendency of general rate proceedings to calculate revenue requirements and subsequent approved rates, it has permitted only a narrow set of updated inputs based on non-controversial calculations that substantially affect the level of baseline power costs. This practice evolved from periods of significant shifts in commodity prices that exceeded the ability of the ERM mechanism to account for power costs. Such circumstances do not appear to be present in this case.  
    [↑](#footnote-ref-2)
3. Declaration of David Gomez, ¶ 7a. [↑](#footnote-ref-3)